

# Bay County Employees Retirement System

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VP, Client Portfolio Manager

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# loomis sayles at a glance

## A Rich Investment Tradition

Serving clients with integrity since 1926

\$240.0 billion assets under management\*

Expertise across all major asset classes

75% of investment professionals dedicated to research & trading; 153 CFA® charterholders\*\*

Global perspective: investors in Boston, San Francisco, Detroit, London and Singapore

## What Defines Us

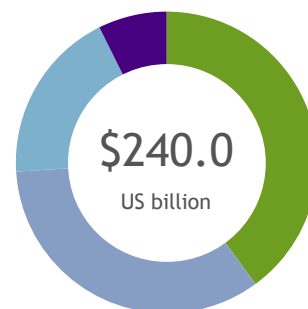
Core attributes: integrity, transparency and a team-oriented culture

Rigorous fundamental analysis complemented by robust macro and market insight

Portfolio managers, strategists, research analysts and traders collaborating to identify our best ideas

Small, accountable product teams implementing portfolio decisions

Disciplined risk awareness integrated into a high conviction investment process



## AUM by Global Accounts

- US separate accounts (\$95.5 b)
- US mutual funds (\$82.2 b)
- Non-US separate accounts (\$34.8 b)
- Non-US mutual funds (\$27.5 b)

*As of 6/30/2016. \* Includes the assets of both Loomis, Sayles & Co., LP, and Loomis Sayles Trust Company, LLC. (\$18.4 billion for the Loomis Sayles Trust Company). Loomis Sayles Trust Company is a wholly owned subsidiary of Loomis, Sayles & Company, L.P. \*\* 285 investment professionals. 82% of CFA charterholders are investment professionals and 18% are non-investment professionals.*

# deep insight fuels our pursuit of alpha

## MACRO STRATEGIES

- Director  
*36 years experience*
- Associate Director/  
Senior Global Macro Strategist  
*21 years experience*
- Senior Equity Strategist  
*31 years experience*
- 2 Economists  
*27 years average experience*
- 2 Analysts  
*7 years average experience*
- Research Assistant

## SOVEREIGN RESEARCH

- 6 Senior Sovereign Analysts  
*20 years average experience*
- 3 Analysts  
*6 years average experience*

## CREDIT RESEARCH

- Director  
*33 years experience*
- 27 Senior Credit Analysts  
*19 years average experience*
- 8 Credit Analysts  
*10 years average experience*
- 9 Research Associates
- 7 Research Assistants

## SECURITIZED RESEARCH

- Director  
*19 years experience*
- 2 Securitized Asset Strategists  
*15 years average experience*
- 4 Senior Securitized Asset Analysts  
*17 years average experience*
- 2 Research Analysts\*

## CONVERTIBLES & SPECIAL SITUATIONS

- Director  
*31 years experience*
- 3 Senior Research Analysts  
*14 years average experience*
- 2 Research Associates

## QUANTITATIVE RESEARCH & RISK ANALYSIS

- 2 Associate Directors  
*20 years average experience*
- Quantitative Strategist  
*21 years experience*
- 8 Quantitative Analysts  
*9 years average experience*
- 2 Quantitative Associates

## EQUITY RESEARCH

- 24 Senior Analysts  
*19 years average experience*
- 8 Analysts  
*7 years average experience*

**\$92 million committed to proprietary research in 2016**

*As of 6/30/2016; Years experience indicates industry experience.*

*\*Includes one analyst with a Q3 start date.*

# loomis sayles research blog

## LANDSCAPE - A BLOG FOCUSED ON RESEARCH

### About the authors

- Loomis Sayles analysts are career professionals who offer deep knowledge and experience in a diversity of global asset classes and market sectors. These dedicated experts provide the insight essential to supporting our portfolio management teams across a wide range of investment strategies.

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### Recent posts

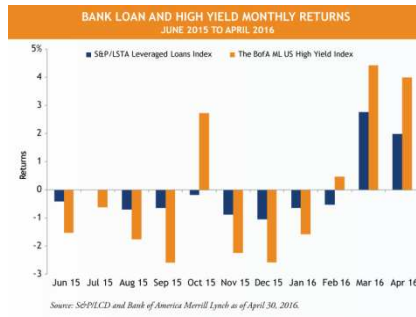
#### BREXIT'S IMPACT ON GLOBAL MARKETS

Author: Laura Sarlo



#### WHAT HAPPENS TO HIGH YIELD, HAPPENS TO BANK LOANS - ONLY LESS

Author: Cheryl Stober



#### MID-YEAR INVESTMENT OUTLOOK FOR INVESTMENT GRADE AND HIGH YIELD BONDS

Author: Tom Fahey



We are being treated to  
**SOLID RETURNS**  
across the  
**CREDIT SPECTRUM**

# product overview

## HIGHLY EXPERIENCED, SEASONED TEAM

PRODUCT TEAM	CAROL EMBREE, CFA Portfolio Manager		RICK RACZKOWSKI Portfolio Manager		KURT WAGNER, CFA, CIC Portfolio Manager	
	Yrs of industry experience:		31		27	
	Yrs with firm:		31		15	
	GENE MORRISON, CFA Product Manager	PRAMILA AGRAWAL, CFA Strategist	DAN PLOFSKY, CFA Portfolio Specialist	DAN CONKLIN, CFA Investment Analyst	ANNA WANG Investment Analyst	MICHAEL CROWELL Assoc. Director, Fixed Income QRRA
	Yrs of industry experience:		21		9	
	Yrs with firm:		2		8	
FIRMWIDE RESOURCES	Investment Grade Sector Team		Credit Research		Quant. Research & Risk Analysis	
	P. Agrawal N. Burke C. Embree B. Kennedy M. McDade J. McIntosh R. Raczkowski L. Royer S. Service D. Simmons K. Wagner		Director 27 Senior Analysts 8 Analysts 9 Research Associates 7 Research Assistants		2 Associate Directors Quantitative Strategist 2 Analysts - Equity 6 Analysts - Fixed 2 Associates	
	Macro Strategies Director Assoc. Director/ Senior Global Macro Strategist Senior Equity Strategist 2 Economists 2 Analysts Research Assistant		Convertibles & Special Situations Director 3 Senior Analysts 2 Research Associates		Fixed Income Trading 29 Traders/TAs Director, Portfolio Implementation 18 Portfolio Specialists Director, Operational Trading Risk Mgt. Risk Analyst	

As of 6/30/2016.

# guideline summary

## Benchmark

- Barclays US Corporate Investment Grade Bond Index

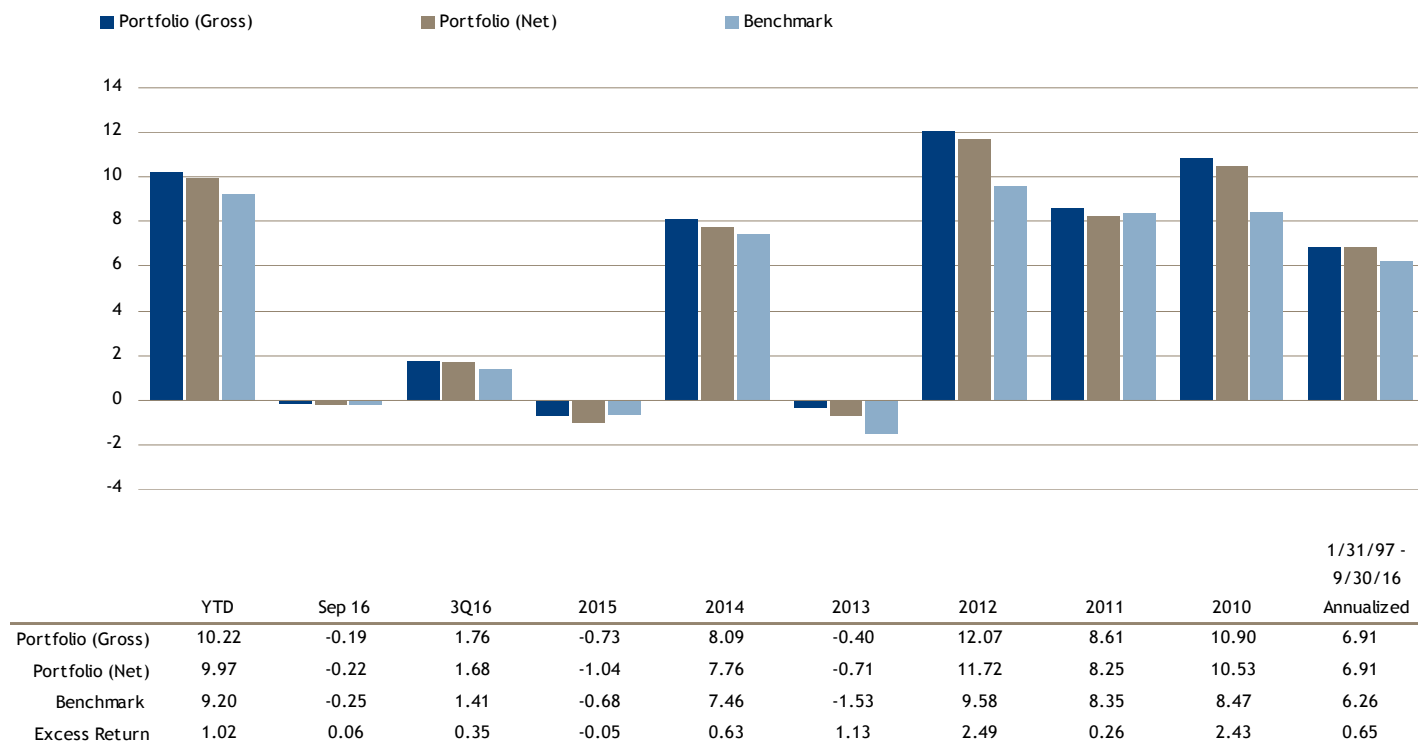
## Limitations

- Credit Quality: Account may not hold more than 10% MV in securities rated below Moody or S&P Baa3/BBB-. The highest rating will govern split rated securities. Account may not hold any securities with a Moody or S&P rating below B3/B-, at time of purchase. Downgrades below B3/B- can be held if advantageous.
- Issuer: Account may not hold more than 5% MV in any one Issuer, excluding US Treasuries, Govt agencies and GSE's.
- Issue: Account may not hold more than 5% of the outstanding fixed income obligations of any one issue, excluding US Government and Agency securities.
- Country: Account may not purchase foreign fixed income securities, excluding Yankee Bonds. This includes all non-USD denominated securities.
- Duration: +/- 1 year relative to the Barclays US Corporate Investment Grade Bond Index.
- Account may not invest in securities issued by Bay County.

*Guideline summary is not a complete restatement of guidelines. The slide is intended to be a summary to aid in the review process.*

# investment results

## CALENDAR YEAR RETURNS (%) AS OF 9/30/2016

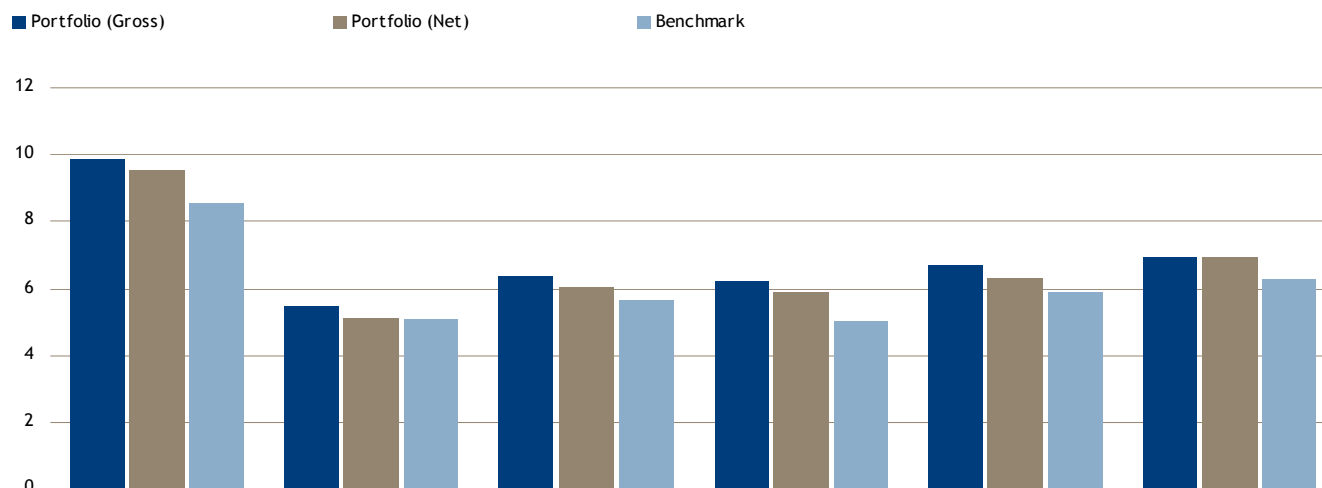


The current benchmark is Barclays U.S. Corporate Investment Grade. (1) Citigroup Broad Inv-Grade (BIG) from 1/31/1997 to 6/30/1999; Barclays Credit from 6/30/1999 to 2/29/2012; and Barclays U.S. Corporate Investment Grade from 2/29/2012 to 9/30/2016. Returns over one year are annualized. Information is reported on a trade date basis. Account net return for inception to date periods are gross of fees. Data Source: Barclays Capital, Bloomberg



# investment results

## ANNUALIZED RETURNS (%) AS OF 9/30/2016



	1 year	2 years	3 years	5 years	10 years	1/31/97 - 9/30/16 Annualized
Portfolio (Gross)	9.87	5.45	6.35	6.23	6.67	6.91
Portfolio (Net)	9.53	5.13	6.02	5.90	6.32	6.91
Benchmark	8.56	5.06	5.63	5.04	5.88	6.26
Excess Return	1.31	0.39	0.72	1.19	0.79	0.65

The current benchmark is Barclays U.S. Corporate Investment Grade. (1) Citigroup Broad Inv-Grade (BIG) from 1/31/1997 to 6/30/1999; Barclays Credit from 6/30/1999 to 2/29/2012; and Barclays U.S. Corporate Investment Grade from 2/29/2012 to 9/30/2016. Returns over one year are annualized. Information is reported on a trade date basis. Account net return for inception to date periods are gross of fees. Data Source: Barclays Capital, Bloomberg

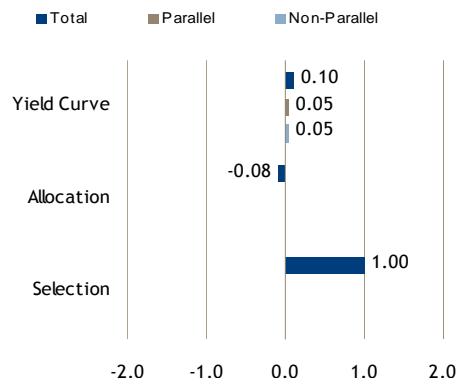
# performance attribution

12/31/2015 THROUGH 9/30/2016 (%)

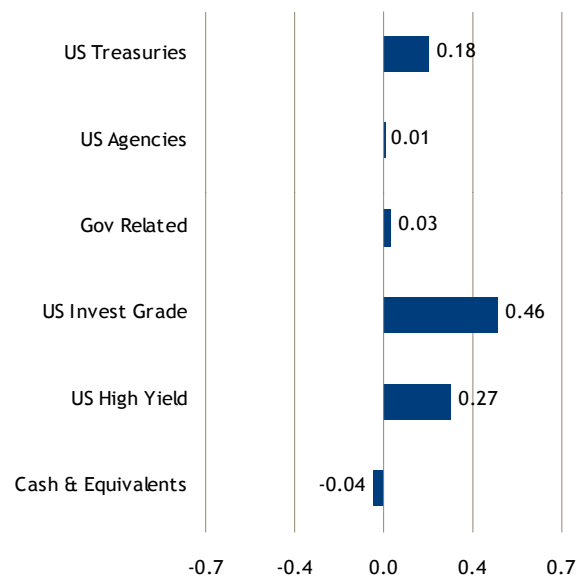
## Total Returns

Account Return	10.22
Benchmark Return	9.20
Excess Return	1.02

## Excess Return Attribution



## Excess Return Attribution by Sector



The Attribution benchmark is Barclays U.S. Corporate Investment Grade. Figures on bar charts may not add up to total excess return as they exclude impact of trading and pricing differences. Excess Return by sector excludes yield curve impact. Data Source: Barclays Capital

# attribution analysis

12/31/2015 THROUGH 9/30/2016 (%)

## Maturity Distribution

	Account Final Weight	Benchmark Final Weight	Account Average Weight	Benchmark Average Weight	Portfolio Return	Benchmark Return	Total Effect
Under 1 year	4.93	0.00	5.42	0.00	1.06	9.21	-0.05
1 - 3 years	12.15	20.03	10.85	20.85	2.85	2.52	0.23
3 - 5 years	18.94	18.04	18.51	17.98	5.36	5.12	0.02
5 - 7 years	14.82	13.11	16.56	13.19	8.76	8.10	0.10
7 - 10 years	16.99	17.49	18.44	17.35	11.66	9.70	0.36
10+ years	32.18	31.32	30.20	30.64	16.53	16.76	0.30

## Sector Distribution

	Account Final Weight	Benchmark Final Weight	Account Average Weight	Benchmark Average Weight	Portfolio Return	Benchmark Return	Total Effect
US Treasuries	0.76	0.00	1.72	0.00	6.18	9.21	0.18
US Agencies	0.15	0.00	0.15	0.00	25.17	9.21	0.01
Gov Related	0.86	0.00	0.76	0.00	20.90	9.21	0.03
US Invest Grade	90.40	100.00	89.40	100.00	10.17	9.23	0.46
IG - Financial	31.18	30.85	33.00	30.93	6.17	6.04	0.15
IG - Industrial	56.64	61.45	53.79	61.45	12.23	10.65	0.26
IG - Utility	2.58	7.70	2.61	7.62	13.37	10.67	0.05
US High Yield	5.50	0.00	6.30	0.00	12.12	0.00	0.27
Cash & Equivalents	2.32	0.00	1.67	0.00	0.20	9.21	-0.04

The Attribution benchmark is Barclays U.S. Corporate Investment Grade. Total Effects are impacted by sector returns, allocation shifts and market timing. Total Effect excludes yield curve impact. Data Source: Barclays Capital

# attribution analysis

12/31/2015 THROUGH 9/30/2016 (%)

Quality Distribution

	Account Final Weight	Benchmark Final Weight	Account Average Weight	Benchmark Average Weight	Portfolio Return	Benchmark Return	Total Effect
Aaa	3.93	1.75	3.94	1.59	4.03	8.73	0.19
Aa	8.03	11.08	5.38	9.34	7.45	6.81	0.10
A	38.31	39.06	38.71	41.49	8.10	8.02	0.29
Baa	45.02	48.11	45.67	47.58	12.06	10.81	0.07
Ba	4.32	0.00	5.40	0.00	11.33	9.21	0.18
B	0.40	0.00	0.89	0.00	14.97	9.21	0.08
Caa & Lower	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Not Rated	0.00	0.00	0.02	0.00	2.04	9.21	0.00

Currency Distribution

	Account Final Weight	Benchmark Final Weight	Account Average Weight	Benchmark Average Weight	Portfolio Return	Benchmark Return	Total Effect
US Dollar	100.00	100.00	100.00	100.00	10.23	9.21	0.92

The Attribution benchmark is Barclays U.S. Corporate Investment Grade. For split rated securities in the quality distribution, the higher of Moody and S&P is used. Total Effects are impacted by sector returns, allocation shifts and market timing. Total Effect excludes yield curve impact. Data Source: Barclays Capital

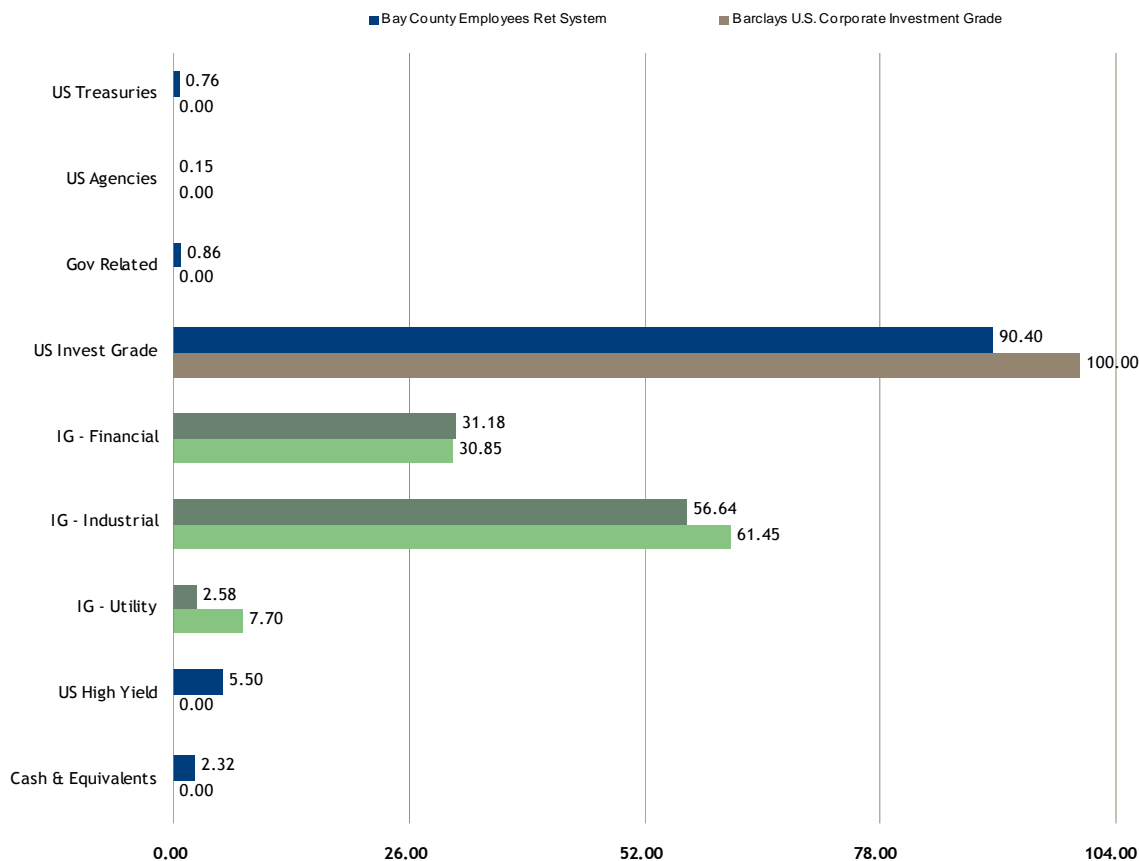
# historical characteristics summary

	<b>Portfolio 12/31/2015</b>	<b>Portfolio 9/30/2016</b>	<b>Benchmark 9/30/2016</b>
Yield	3.81%	3.04%	2.82%
Average Maturity	10.69 years	10.97 years	10.68 years
Average Duration	7.10 years	7.62 years	7.45 years
Average Coupon Rate	4.06%	4.11%	4.12%
Average Quality	A3	Baa1	Baa1
OAS	182	157	137
Market Value	\$39,183,337		

*The current benchmark is Barclays U.S. Corporate Investment Grade. Duration used is Effective. Equity securities are deemed to have a duration and maturity value of zero. Yield is Yield to Effective Maturity Data Source: Barclays Capital*

# characteristics summary

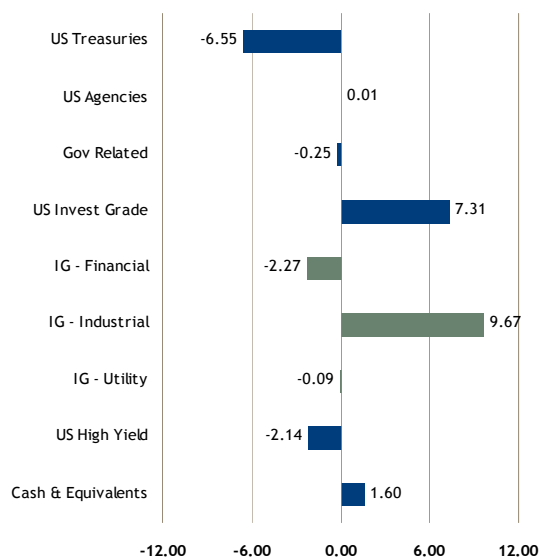
## SECTOR DISTRIBUTION (%) AS OF 9/30/2016



Data Source: Barclays Capital

# sector allocation change

12/31/2015 TO 9/30/2016 (%)

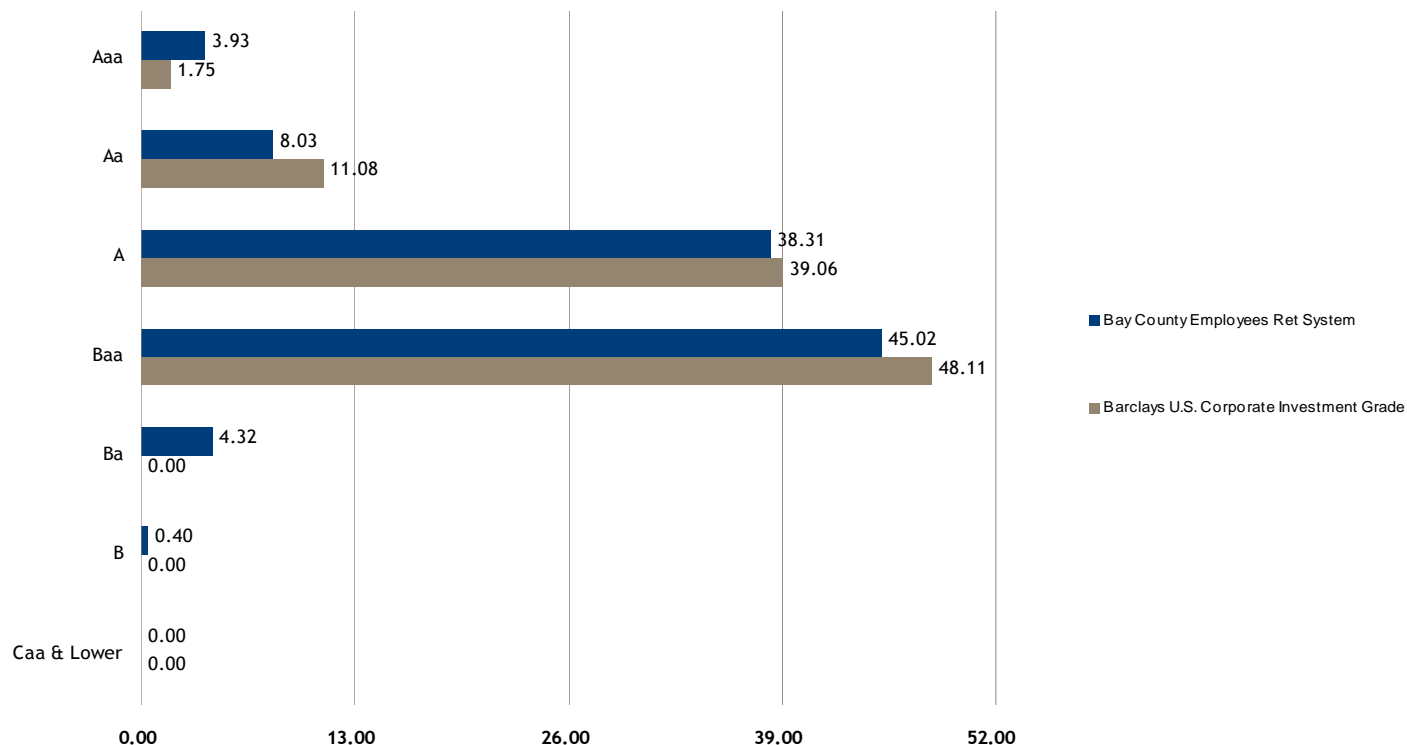


	Account Final Weight	Over/Under Weight
US Treasuries	0.76	0.76
US Agencies	0.15	0.15
Gov Related	0.86	0.86
US Invest Grade	90.40	(9.60)
IG - Financial	31.18	0.33
IG - Industrial	56.64	(4.81)
IG - Utility	2.58	(5.12)
US High Yield	5.50	5.50
Cash & Equivalents	2.32	2.32

The current benchmark is Barclays U.S. Corporate Investment Grade. Data Source: Barclays Capital

# characteristics summary

## QUALITY DISTRIBUTION (%) AS OF 9/30/2016

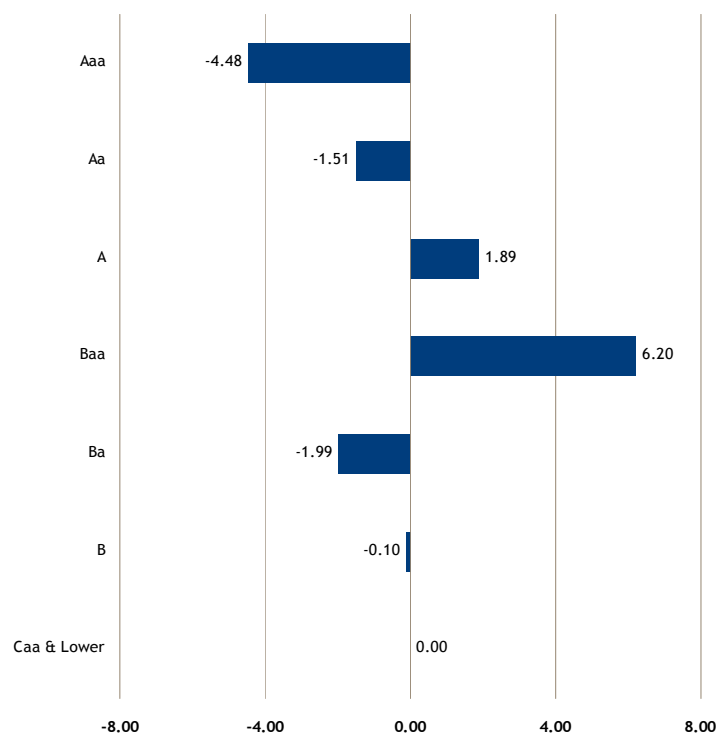


*For split rated securities in the quality distribution, the higher of Moody and S&P is used. The account's split rating treatment is based on client guidelines. The benchmark follows the vendor's methodology. Data Source: Barclays Capital*



# quality allocation change

12/31/2015 TO 9/30/2016 (%)

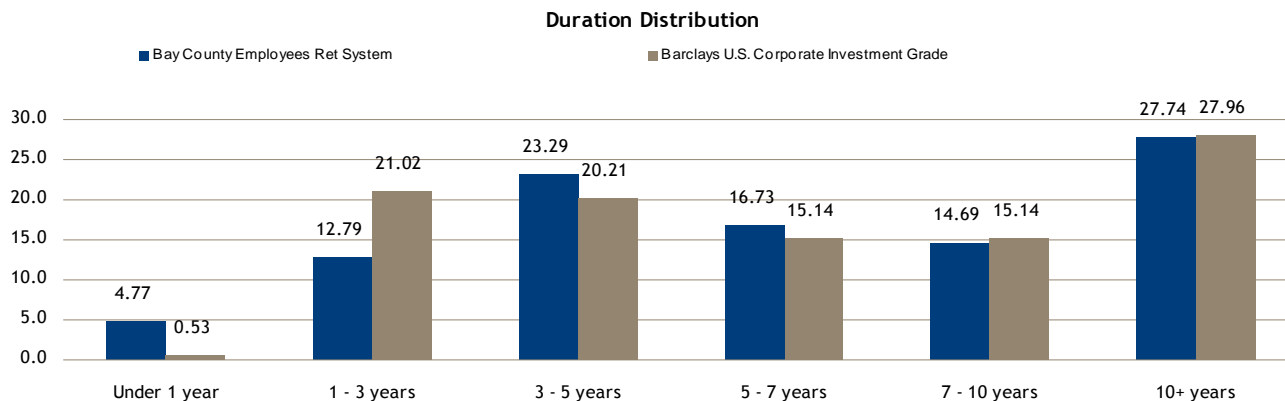
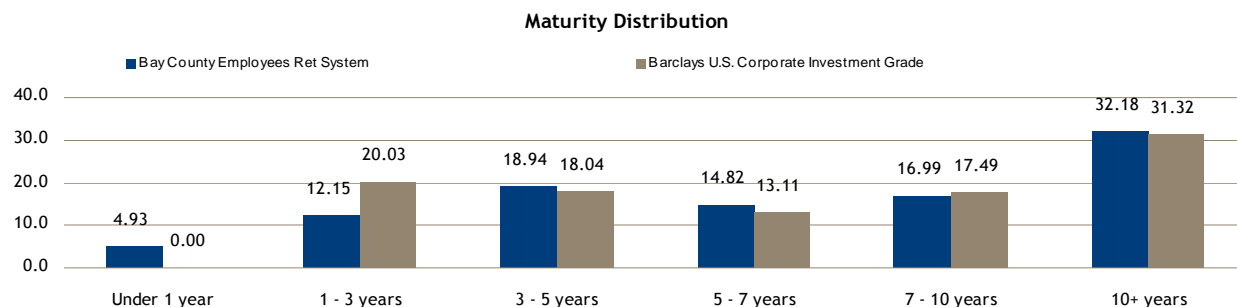


	Account Final Weight	Over/Under Weight
Aaa	3.93	2.18
Aa	8.03	(3.05)
A	38.31	(0.75)
Baa	45.02	(3.09)
Ba	4.32	4.32
B	0.40	0.40
Caa & Lower	0.00	0.00

The current benchmark is Barclays U.S. Corporate Investment Grade. For split rated securities in the quality distribution, the higher of Moody and S&P is used. The account's split rating treatment is based on client guidelines. The benchmark follows the vendor's methodology. Data Source: Barclays Capital

# characteristics summary

AS OF 9/30/2016 (%)



The current benchmark is Barclays U.S. Corporate Investment Grade. Equity securities are deemed to have a duration and maturity value of zero. Data Source: Barclays Capital

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# macroeconomic environment and outlook

Year-end Forecast	U.S. Domestic		Global		Western Europe		Asia Pacific		Latin America	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Real GDP Growth	1.5%	2.1%	3.0%	3.2%	1.4%	1.4%	5.3%	5.0%	0.0%	1.8%
Headline CPI Inflation	1.3%	2.4%	2.7%	3.1%	0.6%	1.5%	2.2%	2.5%	10.0%	7.9%
Current Account Balance (% GDP)	-2.6%	-2.7%	-	-	2.8%	2.7%	1.9%	1.7%	-2.6%	-2.4%
Interest Rates (10-Year); end of year	1.5%	1.8%	-	-	-	-	-	-	-	-

## ***U.S. economy poised to grow faster during the coming quarters***

- On a year to year basis real economic growth in the United States is expected to remain positive albeit at slower rates than past expansions.
- Private housing starts should rise steadily in 2016 and throughout next year.
- The unemployment rate should stabilize around the historical NAIRU, non accelerating inflation rate of unemployment, which is between 4% and 5%.
  - The labor force participation rate has risen a bit but is likely to level off over the coming quarters as nonfarm payroll growth begins to moderate.
  - Annual productivity growth, measured by output per hour worked, is expected to improve just marginally over the next fifteen months.
- Headline inflation remains tame but should increase with oil prices in 2017.

## ***U.S. corporate credit quality is holding up in a disjointed cycle***

- Profit margins, leverage and shareholder activity remain elevated near levels consistent with the late stage of an expansion, a time when the Fed would have already lifted rates well off the zero lower bound.
- Other credit metrics do not signal an end to the current cycle, but do represent conditions that have been consistent with a significantly higher policy rate.
  - Now that the Fed has hiked, the trajectory of rates should not be steep, as inflation, wage growth and oil prices do not indicate an overheating economy.
- The use of leverage to fund shareholder friendly activity is not alarming at this point, but as activity persists, corporate health could deteriorate mildly.

## ***Central banks remain accommodative, policy makers debate fiscal stimulus Risk markets rally led by EM and US equities, US high yield spreads tighten***

- The Federal Reserve appears less eager to raise the federal funds rate but hikes are still expected in December of this year as well as June of next year.
- The United States Presidential election in November is an additional source of global uncertainty as investors ponder the possibility of a full sweep.
- The BoJ is shifting to a yield curve control framework and has committed to expanding the country's monetary base until 2% inflation achieved.
- A combination of monetary and fiscal easing could be the next level of policy enacted to stimulate economic activity as central banks try to avoid more negative interest rates.
- Brexit shook risk markets to their core during the first two trading sessions after results were announced but a rebound has been sustained since then.
- Relief from Brexit anxiety, accommodative monetary policy, easing financial conditions and expectations for further easing have lifted global risk markets.
  - Credit indices have been performing well on the back of easier financial conditions and some U.S. equity markets remain near all time highs.
- Emerging market equities are showing relative strength over U.S. equities.
- Commodity markets have been stable as the U.S. dollar rally has moderated

*The opinions expressed are based upon subjective judgments and will evolve as future events unfold.*

*Data as of 9/23/2016: Loomis Sayles Macro Strategies Group*

# bond market environment

## 10-YEAR US TREASURY YIELDS

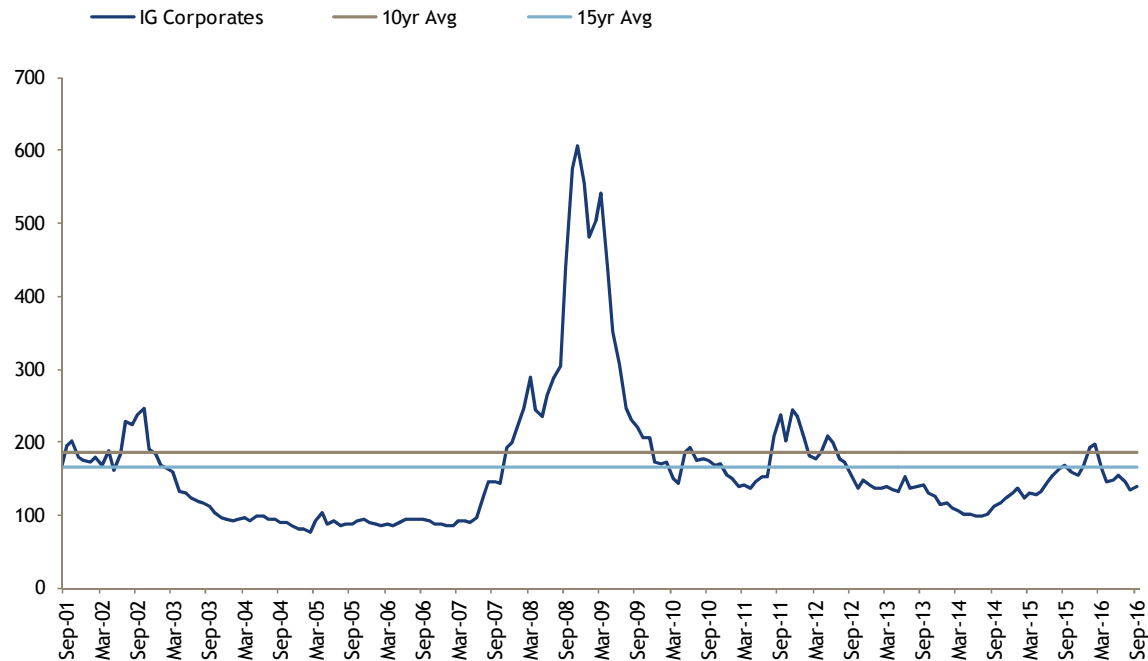


*Chart illustrates 10 Year Treasury Yields from 8/31/1964 – 9/30/2016.*

*Data source: Bloomberg.*

# bond market environment

## INVESTMENT GRADE SECTOR SPREADS

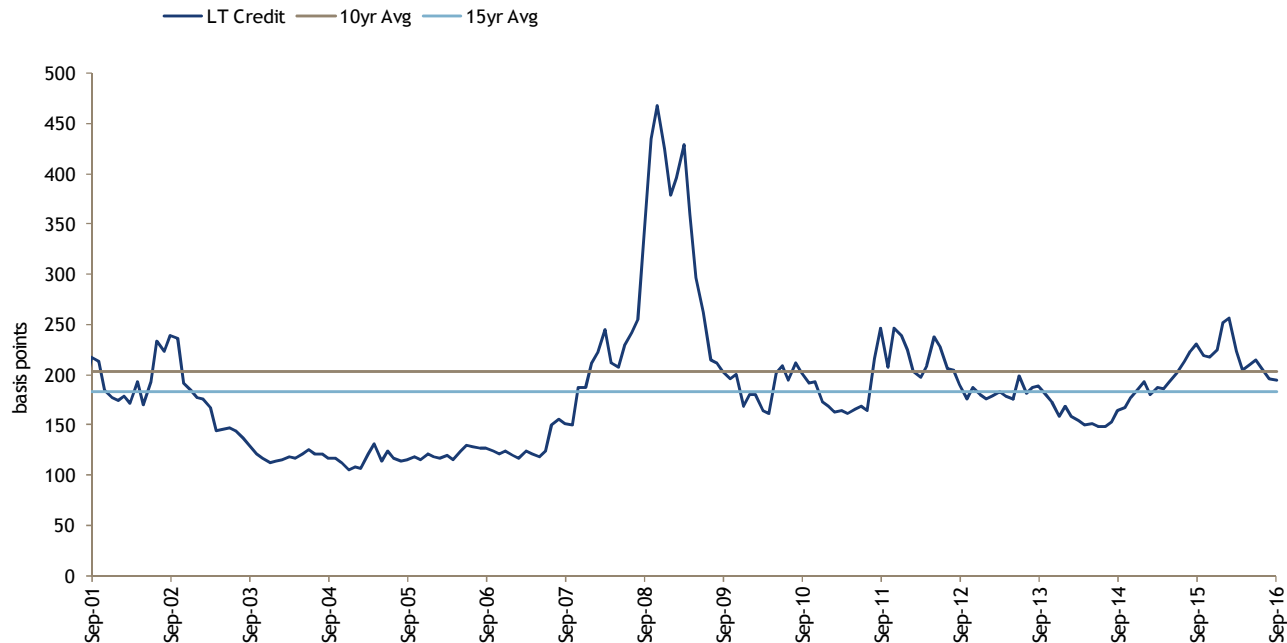


	9/30/2016	10 Yr Average	15 Yr Average	Current Spread to 10 Yr Avg	Current Spread to 15 Yr Avg
IG Financials	137	214	177	(77)	(40)
IG Industrials	140	168	159	(29)	(19)
IG Utilities	132	172	162	(40)	(30)
IG Corporates	138	185	166	(47)	(27)

Source: Barclays Capital; data through 9/30/2016.

# bond market environment

## LONG TERM CREDIT SPREADS

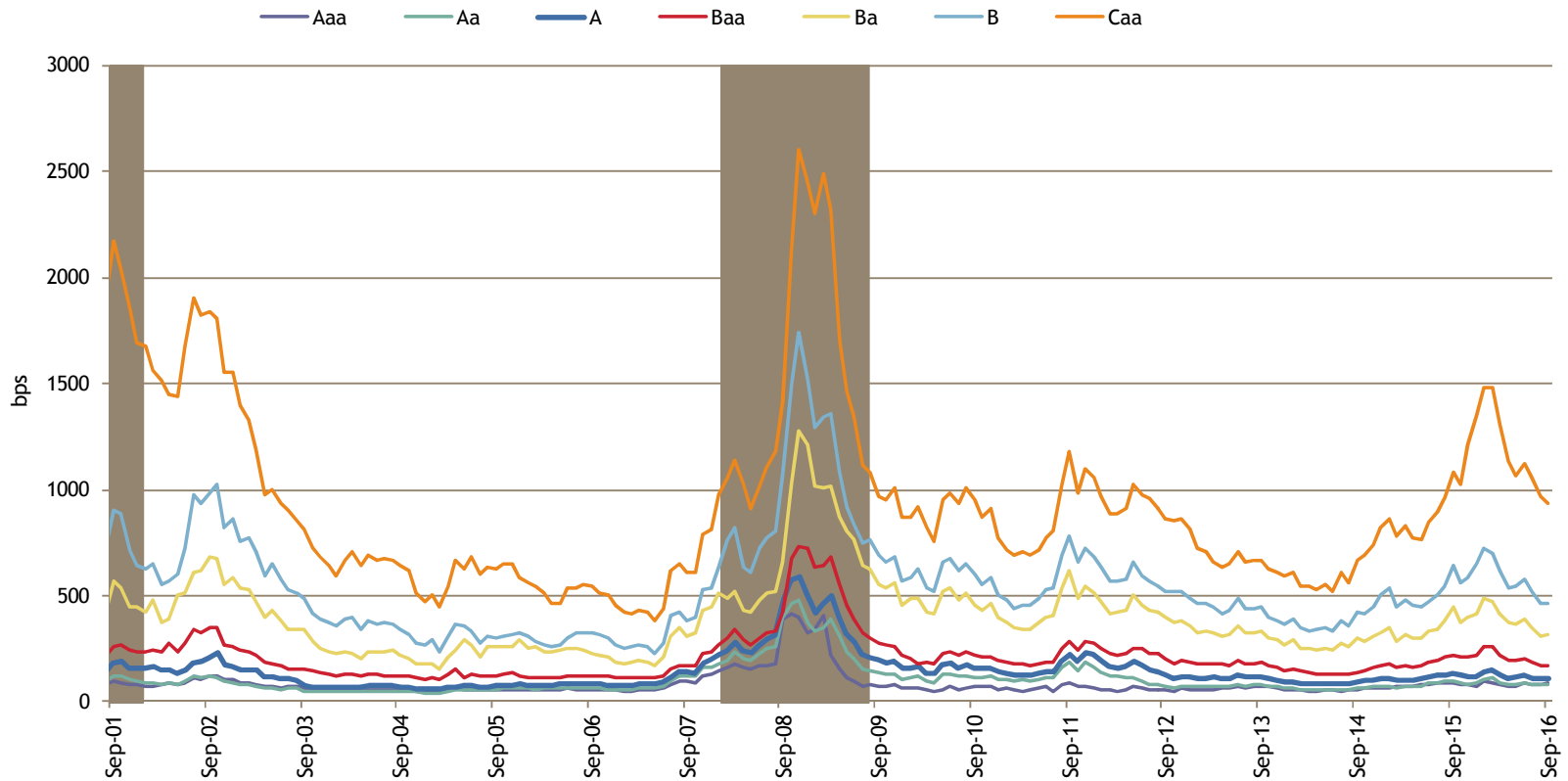


	9/30/2016	10 Yr Average	15 Yr Average	Current Spread to 10 Yr Avg	Current Spread to 15 Yr Avg
LT Credit	195	203	184	(8)	11
LT Aaa	107	102	95	5	12
LT Aa	136	147	124	(11)	12
LT A	163	186	163	(23)	0
LT Baa	242	243	226	(0)	16

Data source: Barclays Capital. Averages computed by Loomis Sayles. Data through 9/30/2016.

# bond market environment

## SPREADS BY CREDIT QUALITY

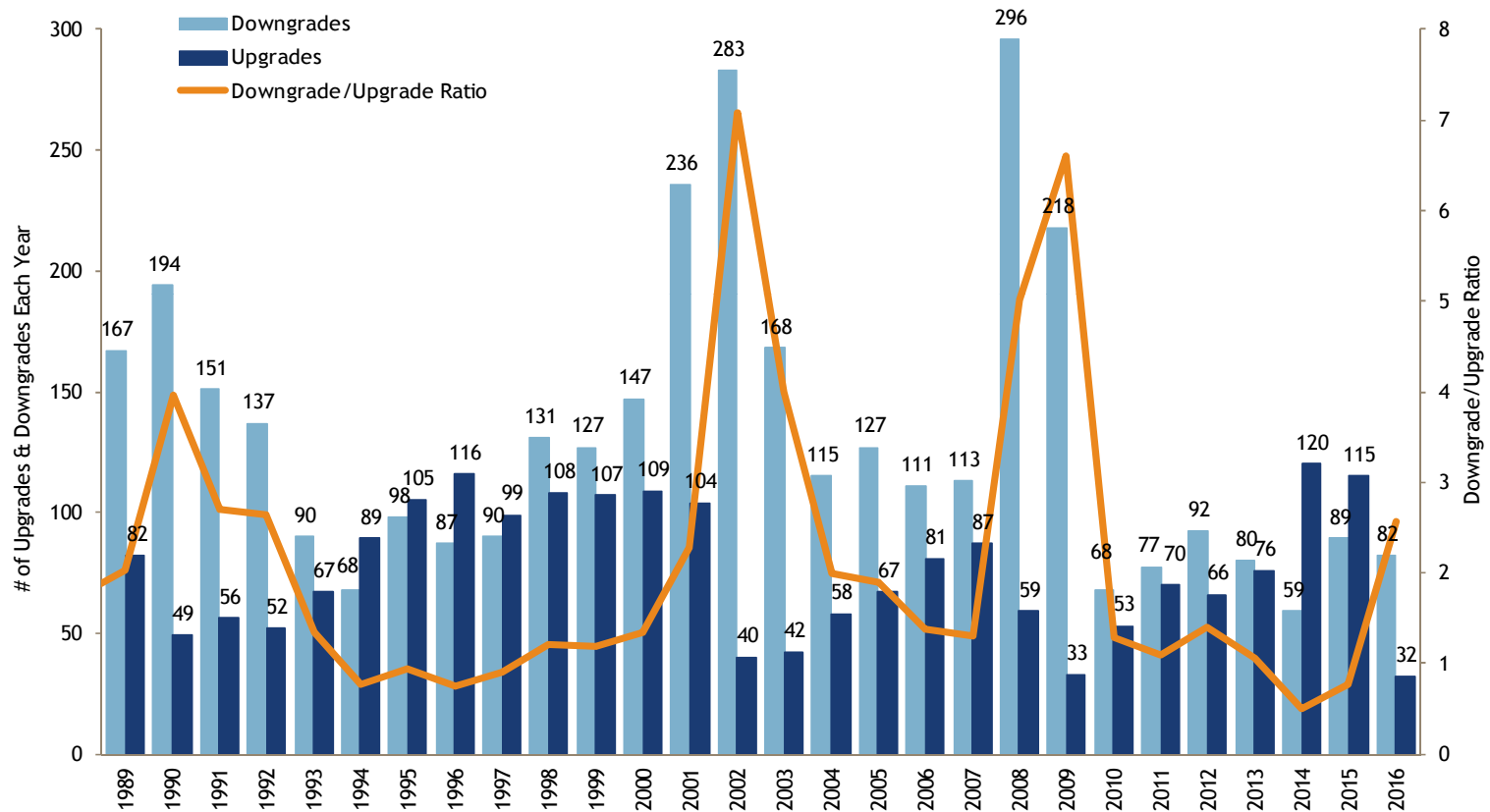


Source: Barclays Capital; data through 9/30/2016. Shaded area denotes recession period.



# bond market environment

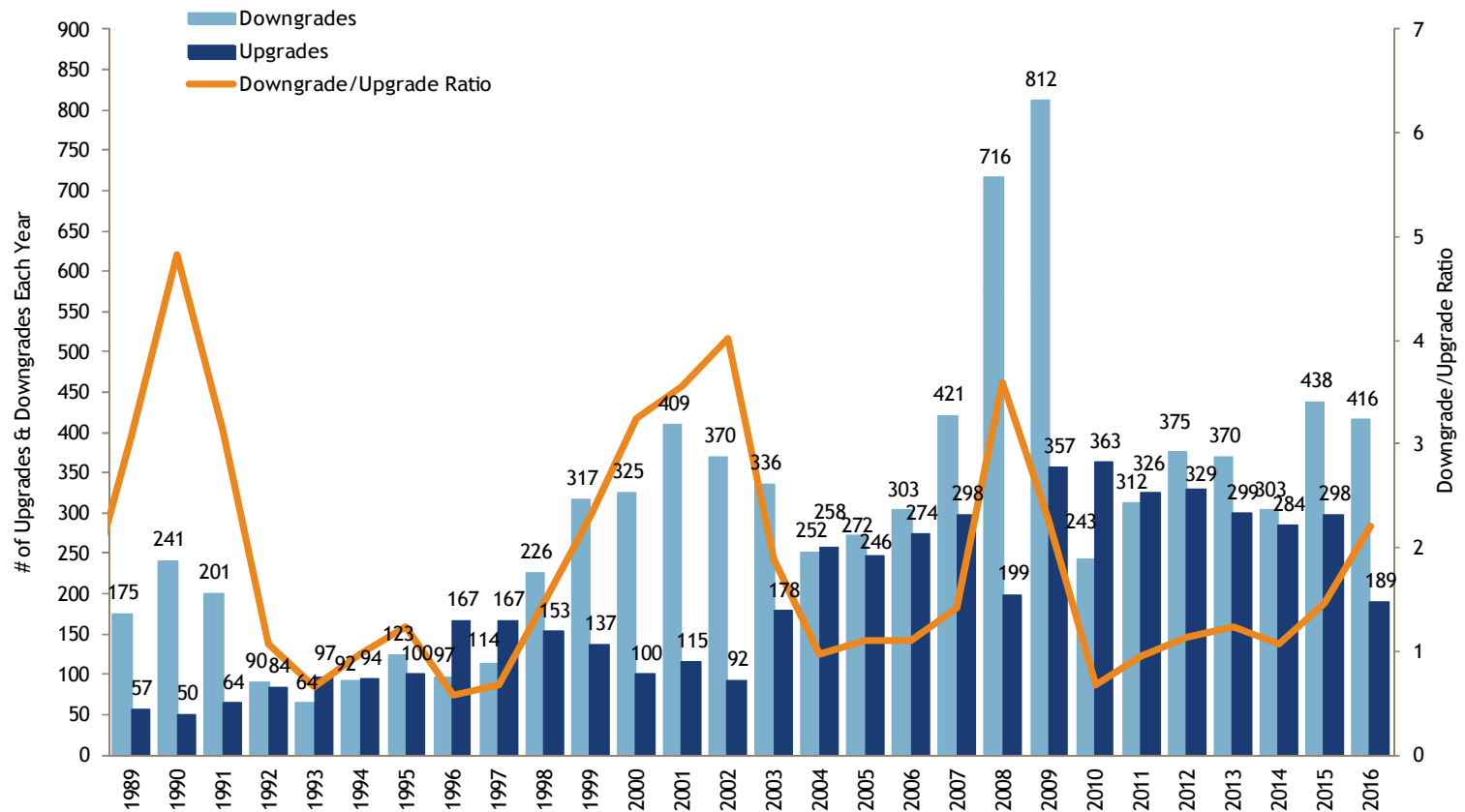
## US INVESTMENT GRADE CREDIT QUALITY TRENDS



Yearly Data. Source: Moodys, history through August 31, 2016.

# bond market environment

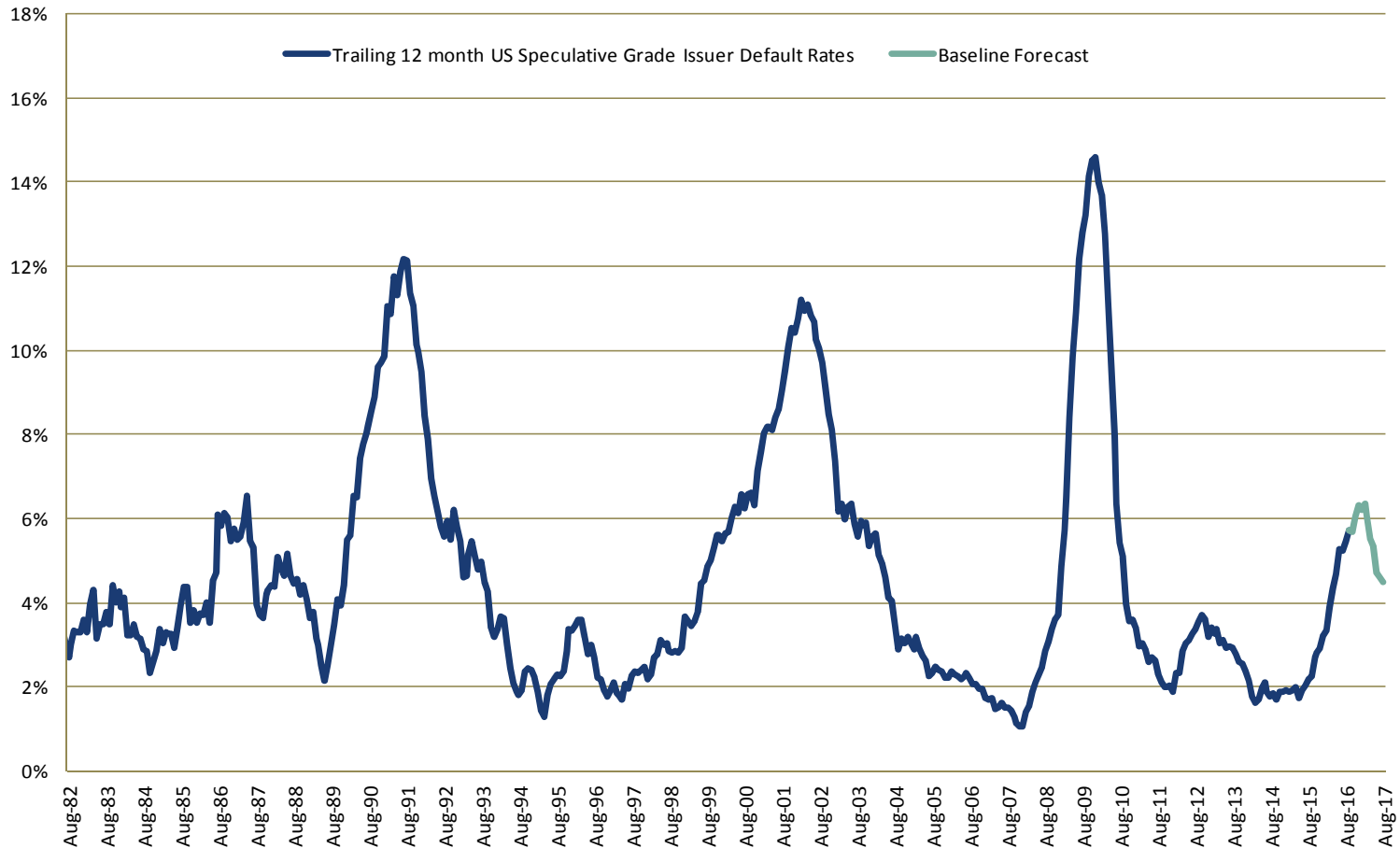
## US HIGH YIELD CREDIT QUALITY TRENDS



Yearly Data. Source: Moodys, history through August 31, 2016.

# bond market environment

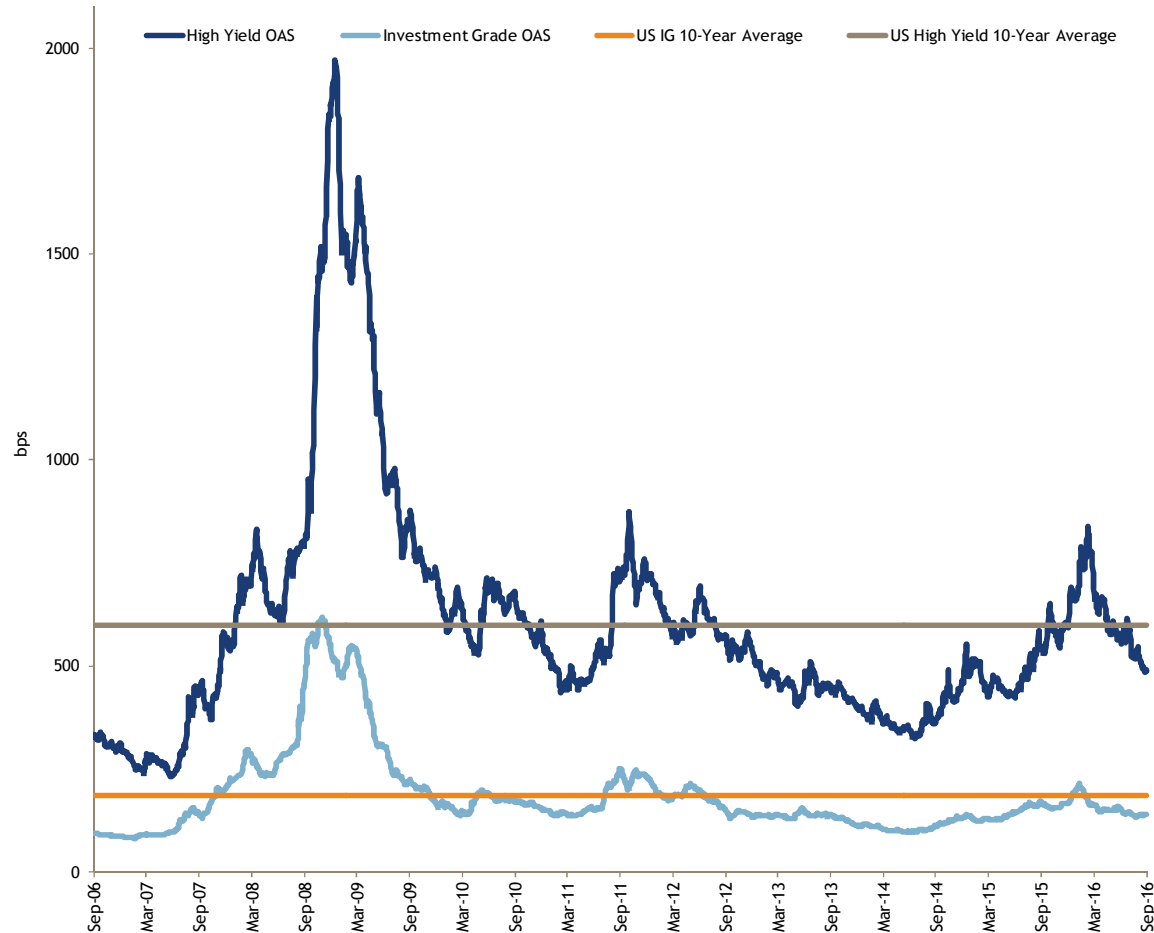
## US SPECULATIVE GRADE DEFAULT TRENDS



Source: Moodys, history through August 2016. Moodys Forecast through August 2017.

# bond market environment

## US INVESTMENT GRADE AND HIGH YIELD OPTION-ADJUSTED SPREADS



Data source: Barclays Capital, history through 9/30/2016.

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# contacts

## RELATIONSHIP MANAGEMENT

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**Kurt L. Wagner, CFA, CIC**  
**Portfolio Manager**

**Gene Morrison, CFA**  
**Product Manager**

**Laurie Gallagher**  
**Client Administration Manager**

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